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Message Text

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12
ACTION EB-07

INFO OCT-01 EA-06 ISO-00 COME-00 OPIC-03 TRSE-00 OMB-01

XMB-02 AID-05 CIAE-00 INR-07 NSAE-00 RSC-01 /033 W
---------- 029662
R 310304Z DEC 74
FM AMCONSUL PORT MORESBY
TO SECSTATE WASHDC 216
INFO AMEMBASSY CANBERRA
AMCONSUL BRISBANE
AMEMBASSY JAKARTA
LNO SAIPAN 004
AMEMBASSY SUVA
AMCONSUL SYDNEY
AMEMBASSY WELLINGTON

C O N F I D E N T I A L PORT MORESBY 0453

PASS COMMERCE AND OPIC

E.O. 11652: GDS
TAGS: EINV, PP
SUBJECT: CREATION OF NATIONAL INVESTMENT AND DEVELOPMENT
AUTHORITY (NIDA) RAISES PROBLEMS FOR INVESTORS.

REF: PORT MORESBY 440

1. SUMMARY: THE IMPACT OF THE NATIONAL INVESTMENT AND DEVELOPMENT AUTHORITY (NIDA) WILL RAISE SOME PROBLEMS FOR INTERNATIONAL INVESTORS SEEKING SAFE BUT PROFITABLE PROJECTS. ALTHOUGH ON BALANCE NIDA SHOULD BE A POSITIVE ELEMENT IN CONTROLLING AND DIRECTING DEVELOPMENT, CERTAIN ASPECTS OF LEGISLATION ESTABLISHING IT ARE CAUSE FOR SOME CONCERN. END SUMMARY

2. THERE IS NO DOUBT THAT THE ESTABLISHMENT OF NIDA MARKS A FUNDAMENTAL CHANGE IN INVESTMENT CONDITIONS FOR PAPUA NEW GUINEA. IT IS BUT ONE MORE EXAMPLE OF AN INDIGENOUS GOVERNMENT WHICH INTENDS TO SEE THAT THE RESOURCES AND DEVELOPMENT OF THE COUNTRY ARE CONTROLLED BY PAPUA NEW GUINEANS FOR PAPUA NEW GUINEANS. EXPAT-
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RIATES BY AND LARGE SEE THESE CHANGES AS PRESAGING THE TIME WHEN

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THEY WILL BE ASKED TO LEAVE. PRESENTLY, THEY PERFORM MANY FUNCTIONS WHICH COULD BE PERFORMED BY PAPUA NEW GUINEANS AND THEY CONTROL MORE THAN 90 PERCENT OF ALL BUSINESS ENTERPRISES. THEY RUN THE SMALL SHOPS, BARBERSHOPS AND HAIRDRESSERS, CHILD BABY SITTING CENTERS, USHER AT THE LOCAL THEATERS, ARE MECHANICS AND CLERKS, ETC. THE GOVERNMENT IS COMMITTED TO "RESERVING" MANY OF THESE POSITIONS OF EMPLOYMENT FOR PAPUA NEW GUINEANS THUS FOCING MANY EXPATRIATES TO LEAVE. AN IMPORTANT FUNCITON OF NIDA IS TO CLOSE OUT THESE "REDUNDENT" EXPATRIATES. MORE IMPORTANT TO MAJOR INVESTORS IS THE DETERMINATION OF THE GOVERNMENT TO SEE THAT ITS RESOURCES BENEFIT PAPUA NEW GUINEANS. THERE WILL DOUBTLESS BE HONEST DIFFERENCES OF OPINION IN COMING YEARS AS HARD-HEADED NEGOTIATORS TRY TO ACHIEVE THE BEST AGREEMENTS POSSIBLE. ON THE SURFACE, SOME OF THE NIDA BILL PROVISIONS APPEAR SOMEWHAT DRACONIAN, BUT IF INVESTORS UNDERSTAND THE CONDITIONS UNDER WHICH THEY WILL OPERATE IN PAPUA NEW GUINEA FROM THE BEGINNING, MANY AREAS OF POTENTIAL CONFLICT CAN
BE AVOIDED. THUS A CLEAR EXPOSITION BY THE SOMARE GOVERNMENT OF ITS POSITION ON INVESTMENT SHOULD, IN THE WORDS OF THE CHIEF MINISTER, "DO MUCH TO CLEAR THE AIR."

3. IN A WIDE-RANGING DISCUSSION WITH CONGEN ECON OFFICER DECEMBER 18, TOM ALLEN, EXECUTIVE DIRECTOR OF NIDA, MADE THE FOLLOWING POINTS: 1) THE PRESENT NIDA STAFF IS EXTREMELY SMALL IN TERMS OF THE POWERS AND RESPONSIBILITIES AND WILL MOVE, AS A CONSEQUENCE, VERY SLOWLY; 2) MUCH OF THE EARLY WORK WILL BE IN EDUCATING OTHER DEPARTMENTS OF THE GOVERNMENT WHICH DO NOT NOW SHARE THE GOVERNMENT'S VIEWS REGARDING INVESTMENT; 3) THERE ARE ALREADY SOME PROBLEMS AND MISUNDERSTANDINGS WITHIN THE BUREAUCRACY REFLECTING A DETERMINATION NOT TO DEFER BASIC INVESTMENT DECISIONS TO NIDA; 4) NIDA'S FIRST TASK TI TO CONVINCE BUSINESSMEN, LARGE AND SMALL, THAT IT IS A RESPONSIBLE ORGANIZATION AND THIS MEANS NOT RADICALLY ACCELERATING MOVEMENT TO OUST EXPATRIATES AT THIS TIME. HE ALSO STATED THAT THE REGISTRATION PROCESS WOULD TAKE AT LEAST THREE YEARS AND THAT HIS STAFF WOULD NEED A MINIMUM OF EIGHTEEN MONTHS BEFORE IT WAS OPERATING SMOOTHLY. ALLEN STRESSED THE
DIFFERENCE BETWEEN SMALL BUSINESS ENTERPRISES WHICH COULD BE TAKEN OVER BY PAPUA NEW GUINEANS AND LARGE SCALE INVESTMENT PROJECTS WHICH INTRODUCED CAPITAL, TECHNOLOGY AND TRAINING SKILLS UNAVAILABLE WITHIN PNG.
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4. ALLEN HIMSELF WILL BE A CONSIDERABLE FACTOR IN THE SUCCESS OR FAILURE OF NIDA. AN AUSTRALIAN, ALLEN WAS A CONSULTANT TO THE BOARD OF INVESTMENT IN THE PHILIPPINES, AN ADVISER TO THE INDUSTRIAL DEVELOPMENT AUTHORITY, REPUBLIC OF IRELAND, AND A CONSULTANT TO BRITISH GOVERNMENT DEPARTMENTS ON INDUSTRIAL ESTATE DEVELOPMENTS. IN PRIVATE CONVERSATION HE CAME ACROSS AS A MAN OF INTELLIGENCE AND SOUND JUDGEMENT, WELL AWARE OF THE PROBLEMS HE FACES BOTH WITHIN

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AND WITHOUT THE GOVERNMENT. HIS FIRST PUBLIC APPEARANCE BEFORE A GROUP OF PORT MORESBY BUSINESSMEN UNDER THE AUSPICES OF THE LOCAL CHAMBER OF COMMERCE WAS NOT A SUCCESS, HOWEVER, AND HE IS OBVIOUSLY TRYING TO CREATE A MORE POSITIVE STANCE. ALLEN IS REPORTED TO BE A PROTEGE OF MINISTER FOR FINANCE JULIUS CHAN. CHAN WAS INSTRUMENTAL IN NIDA'S CREATION AND BROUGHT ALLEN IN ABOUT MID-FEBRUARY 1974 DURING THE FORMATIVE STAGES OF THE LEGISLATION CREATING NIDA. THE FINANCE MINISTER REMAINS A STRONG FORCE WITHIN NIDA DESPITE THE FACT THAT CHIEF MINISTER SOMARE HAS PUT OPERATIONAL CONTROL UNDER MINISTER FOR NATIONAL DEVELOPMENT GAVERA REA. ALLEN'S STAFF IS COMPOSED OF EXPATRIATES, ONE OF WHOM TOLD THE REPORTING OFFICER PRIVATELY THAT THE CONSENSUS IS ALLEN IS USING NIDA FOR HIS OWN ADVANCEMENT. ACCORDING TO HIS WELL-PLACED SOURCE, THE DEPUTY DIRECTOR, DR. VERNON HARVEY, FORMER ASSISTANT SECRETARY IN THE DEPT. OF FINANCE'S GENERAL FINANCIAL AND ECONOMIC POLICY DIVISION IS INSTRUMENTAL IN POLICY FORMULATION AND DAY TO DAY OPERATIONS. MOREOVER, ALLEN HAS APPARENTLY ALIENATED A NUMBER OF OLD LINE BUREAUCRATS IN FINANCE AND FORESTRY.

5. AN ISSUE OF SERIOUS CONCERN MUST BE THE PROBLEM OF INTERNATIONAL ARBITRATION SHOULD THERE BE DIFFERENCES BETWEEN INVESTORS AND THE GOVERNMENT AFTER A PROJECT IS IN PLACE. PRESENTLY, THE INVESTOR MUST WORK WITHIN THE LAWS AND REGULATIONS OF PNG AND NO PROVISION IN NIDA LEGISLATION IS MADE FOR INTERNATIONAL GUARANTEES OR ARBITRATION. THIS HAS RAISED NUMEROUS QUESTIONS HERE AND COULD BE A MAJOR STUMBLING BLOCK TO NEW FOREIGN INVESTMENT.

6. THE PEOPLE AND MANY GOVERNMENT LEADERS HAVE GRAVE RESERVATIONS CONCERNING LARGE SCALE DEVELOPMENT. THEY SEEK THE BENEFITS WITHOUT THE DISLOCATIONS INVOLVED AND THIS AMBIVALENT ATTITUDE HAS NOT YET BEEN RESOLVED. MANY INVESTORS WILL WANT TO BE VERY CAUTIOUS AND SURE THAT LOCAL PEOPLE, WHERE PROJECTS ARE TO BE LOCATED, HAVE A VOICE IN FORMULATING THE AGREEMENTS BETWEEN PNG AND THE INVESTOR.
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PNG HAS GREAT MINERAL, FOREST AND FISHING RESOURCES OFFERING HIGHLY ATTRACTIVE INVESTMENT OPPORTUNITIES, BUT INVESTORS SHOULD BE AWARE OF THE RISING NATIONALISM WHICH WILL INCREASINGLY DEMAND A FAIR RETURN TO THE COUNTRY AS Wwell AS THE INVESTOR.
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